

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317)232-9855

**ADMINISTRATIVE RULE
FISCAL IMPACT STATEMENT**

PROPOSED RULE: 04-144

DATE PREPARED: Nov 11, 2004

STATE AGENCY: Indiana Utility Regulatory Commission

DATE RECEIVED: Sep 28, 2004

FISCAL ANALYST: Valerie Ruda

PHONE NUMBER: 317-232-9867

Digest of Proposed Rule: This rule adds 170 IAC 4-1.2, 170 IAC 5-1.2, and 170 IAC 6-1.2 to establish new customer service rights and responsibility rules for electric, gas, and water utilities. It amends 170 IAC 7-1.3-2, 170 IAC 7-1.3-3, 170 IAC 7-1.3-8, 170 IAC 7-1.3-9, and 170 IAC 7-1.3-10 regarding telecommunications customer service rights and responsibilities. It amends 170 IAC 8.5-2 regarding sewage disposal service customer rights and responsibilities. This rule also repeals 170 IAC 4-1-15, 170 IAC 4-1-16, 170 IAC 4-1-16.5, 170 IAC 4-1-16.6, 170 IAC 4-1-17, 170 IAC 5-1-15, 170 IAC 5-1-16, 170 IAC 5-1-16.5, 170 IAC 5-1-16.6, 170 IAC 5-1-17, 170 IAC 6-1-15, 170 IAC 6-1-16, and 170 IAC 6-1-17.

Governmental Entities:

State: This rule places no unfunded mandates upon state government.

Local: This rule places no unfunded mandates upon any local government unit.

Regulated Entities: This rule applies to the following types of utilities: electric, gas, water, telecommunications, and sewage. However, this rule does not apply to municipal utilities. The three main provisions that have fiscal implications are: (1) decreasing the amount a gas utility may charge as a deposit, (2) changing the interest rate and time period in which deposits must accrue interest, and (3) increasing the reconnecting fees. This fiscal analysis is based on data from the ten largest utility companies in Indiana and, thus, does not represent the total impact of this rule on all affected utilities. (*Note:* Nothing in this rule prevents a utility that is regulated by the IURC from requesting a rate increase to offset any costs incurred as a result of the rule.)

Deposit Reduction: Each type of utility, except gas, currently charges 1/6 of estimated annual billings as a deposit. Gas utilities currently can charge 1/3 of estimated billings, however, this rule decreases the amount by 50% to 1/6.

Gas utilities will experience a reduction in deposit amounts collected. For the top three gas utilities in Indiana, Citizens Gas, NIPSCO, and Vectren (Indiana Gas Co. and Southern Indiana Gas and Electric Co.), this provision is estimated to result in approximately a \$15 M decrease in deposits collected annually by the utility companies. The estimated change in deposits collected represents an increase in exposure to unpaid bills that utilities may be subject to, and not necessarily additional losses from uncollected bills. This estimate also does not take into account all gas utilities in Indiana.

Interest Earnings: The current rule requires utilities to refund deposits and accrued interest once a customer

has made 10 satisfactory payments in any 12-consecutive-month period. The current rule also requires that once a deposit has been held for 12 months, each type of utility, except telecommunications, must allow deposits to earn interest of 6% from the date of deposit.

Telecommunications utilities currently must allow interest to be earned after 30 days at a rate to be determined by the Indiana Utility Regulatory Commission, based on the existing rate for one-year United States Treasury Constant Maturity securities. That rate is now set at 1.5% for telecommunications utilities. Under the new rule, utilities will continue to refund deposits and accrued interest after the 10 on-time payments are made, however, the new rule will require all utilities to allow interest to be earned on deposits held for more than 30 days at the rate set by the Commission (currently set at 1.5%).

According to the Indiana Energy Association, its largest member companies estimate they pay interest on five percent of customers' deposits. Under the new rule, the utilities will be required to pay interest on all deposits refunded, which would add another 15 percent of deposits refunded. However, the reduced interest rate should result in a reduction in interest paid to customers.

Based on the 20 percent of refunded deposits, the rate reduction from 6% to 1.5% would result in approximately a \$69,000 reduction in average interest paid annually to gas utility customers and approximately \$16,500 for electric utility customers. Interest would also be paid on deposits applied to the delinquent bills, however, this expense could offset some exposure to potential bad debt. This estimate is based on a five-year average of year-end balances of deposits as filed with the IURC by the six largest investor-owned gas and electric companies. This estimate also does not account for all utilities affected by this rule.

Reconnect Payment: Current rule requires a utility customer to pay the full amount due in order to have service reconnected or pay 10 percent if just cause is shown for their inability to pay. The proposed rule decreases the maximum amount to 1/3 payment of all amounts due. The proposed rule also allows gas and electric utilities to charge 20% of the amount past due and 20% of any deposit required by the utility to reconnect service during the winter months. According to estimates provided by the Association, the electric and gas utilities could experience a significant increase in exposure to uncollectible bills.

Operating Costs: Also as provided by the Association, the utilities expect operation costs, including customer calls, field costs, programming, and postage and mailing, to increase by an undetermined amount.

Information Sources: Stan Pinegar, Indiana Energy Association; Kristina K. Wheeler, Indiana Utility Regulatory Commission.